QUARTERLY REPORT

SEPTEMBER 1975

COUNCIL ON WAGE and PRICE STABILITY

EXECUTIVE OFFICE OF THE PRESIDENT • WASHINGTON, D.C.

No. 4

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Washington, D.C., 20402 - Price 75 cents

Stock Number 052-003-00117-9

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
726 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20506

The President
The White House

Dear Mr. President:

Enclosed is the fourth quarterly report on the activities of the Council on Wage and Price Stability, as required by Section 5 of the Council on Wage and Price Stability Act. This report describes the Council's activities during May through August, and its work plan for the next several months.

As you know, the rate of inflation, as measured by the Consumer Price Index (CPI), increased during the second quarter to an annual rate of 7.1 percent, following the better-than-expected 6.0 percent rate for the first quarter. In our last report to you, we expected a less than 8 percent rise in the CPI for the year as a whole; while recent monthly reports have made us less certain about that projection, we believe that it is still attainable.

During the second quarter, wages increased somewhat more than prices, continuing the increase in real hourly compensation which began in the first quarter. With the 1975 collective bargaining year virtually ended, the Council is preparing for 1976, which will be a heavy year for wage negotiations. The Council will be watching developments closely as the legitimate concern of workers about real wages is balanced delicately against the danger of new inflationary cost pressures in the economy.

The Council on Wage and Price Stability has continued to be active in monitoring wages and prices in the private sector and is investigating various actions by the Federal Government that could raise costs and prices. The Council continued its investigations into metals, industrial chemicals, certain food products, and tires, and initiated studies into coal, agricultural machinery, and automobiles.

The Council has also filed comments on various actions in the public sector that could have a possible inflationary impact; during this quarter, we commented on matters pending before the Environmental Protection Agency, Civil Aeronautics Board, Food and Drug Administration, National Highway Traffic Safety Administration, Federal Energy Administration, Occupational Safety and Health Administration, Federal Aviation Administration, Federal Power Commission, and International Trade Commission. The Congress in July clarified the Council's role in public

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sector monitoring, by expressly providing it with the authority to "intervene and otherwise participate on its own behalf in rulemaking, ratemaking, licensing and other proceedings before any of the departments and agencies of the United States in order to present its views as to the inflationary impact that might result from the possible outcomes of such proceedings."

As you know, the Congress extended the Council for two years. As the economic recovery gains strength, the Council will continue to monitor both the public and private sectors of the economy. We will, of course, continue to call to your attention wage and price developments that could be of concern.

Respectfully,

William E. Simon
Chairman

L. William Seidman
Deputy Chairman

Michael H. Moskow
Director

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CHAPTER I

HIGHLIGHTS OF COUNCIL ACTIVITIES, ORGANIZATION AND OPERATION

This chapter summarizes the major recent activities of the Council on Wage and Price Stability, principally during the three-month period May 1975 to July 1975. It also provides a brief description of the Council's work plan for the next few months as well as other information concerning Council operations.

Council Authority

Congress created the Council by enactment of the Council on Wage and Price Stability Act on August 20, 1974. This Act, due to expire on August 15, 1975, was amended and extended until September 30, 1977 by Congress's enactment on August 9, 1975, of the Council on Wage and Price Stability Act Amendments of 1975 (Public Law 94-78, signed on August 9, 1975). The text of the Act, as amended, is set forth in the Appendix.

Under the Act, it is the Council's responsibility to monitor and analyze inflationary activities throughout the various sectors of the economy. In the private sectors, the Council monitors the inflationary impact of price and wage activities. This role is accomplished by conducting ongoing studies of certain major industries and by making more specific investigations of price or wage increases that are announced. These investigations have been principally intended to determine whether increases are warranted by increases in costs or demand. In some instances, the Council has held public hearings to gather data or issued public reports of its findings. Where the Council has found a wage or price increase to be inflationary, the Council also has on occasion negotiated with a business to delay or to reduce its increase, or has issued a public statement of its findings.

The Council also reviews the activities and programs of the various departments and agencies of the Federal Government to analyze their impact on inflation. The Council monitors these federal departments and agencies in two ways. First, pursuant to Executive Order 11821 and OMB Circular A-107, the Council reviews the "inflation impact" analyses that the Executive branch agencies are required to make of proposed rules and regulations that would have a "major" economic impact. Second, with respect to the independent regulatory agencies as well as the Executive branch agencies, the Council participates in various agency ratemaking, rulemaking and other proceedings by submitting its views of the economic impact of proposed agency actions.

The Council has no legislative authority to impose mandatory controls on prices, wages, interest, rents, profits, dividends or other payments, nor has it the authority to prevent or delay any federal agency action.

Council Members

The Council consists of eight members and four adviser-members appointed by the President. The Council has a full-time staff headed by a Director who is appointed by the President, with the advice and consent of the Senate. On September 12, 1975, Michael Moskow, formerly an Assistant Secretary at the Department of Housing and Urban Development, was sworn in as the new Council Director. He succeeds Dr. Albert Rees, who has returned to Princeton University to become University Provost. The current Council membership and the principal staff officers are listed in the Appendix.

Council Organization and Staffing

The Council's staff is organized into five units: (i) the immediate Office of the Director, (ii) the Office of Wage and Price Monitoring, (iii) the Office of Government Operations and Research, (iv) the General Counsel's Office and (v) the Office of Public Affairs and Congressional Relations. As of September 15, 1975 the Council's total staff was 48, including 32 professionals, most of whom are economists.

The Council on Wage and Price Stability Act authorizes a $1,700,000 budget for the Council's operations during each of fiscal years 1976 and 1977. For fiscal year 1976, $1,550,000 has been appropriated for the Council's operations. This appropriation will allow a small increase in the Council's staff, and will also provide for the Council's acquisition of further contractual studies on specific matters relating to the economy.

Major Council Activities

The following paragraphs chronologically summarize the major Council activities during the period May 1975 to August 1975. More detailed descriptions of these activities are provided in Chapters II and III.

On May 9, 1975, the Council filed comments with the EPA about proposed regulations to set more strict noise emission standards for medium and heavy trucks at the following levels: 83 dB(A) by 1977, 80 dB(A) by 1981, and 75 dB(A) by 1983. The Council commented that the record before the EPA justified the additional costs of the 83 dB(A) standard, but further justification was needed for the 80 dB(A) and 75 dB(A) standards. On July 10, the Council staff issued a revised analysis which concluded that the economic justification for the 80 dB(A) standard was even more suspect than the original analysis indicated. This matter is still pending before the EPA.

On May 16, 1975, the Council filed comments before the CAB in support of the CAB's proposed rules to permit one-stop inclusive tour charters and special events charters. The Council noted that these fare discounts might help to stimulate additional discretionary travel and imposed a minimum of discriminatory conditions for use of the fares. The Council also urged the CAB to encourage other reduced and discounted fares. This matter is still pending before the CAB.

On May 19, 1975, the Council filed comments about a Food and Drug Administration (FDA) proposal to exempt individually wrapped candies weighing two ounces or less from the existing FDA requirement that each wrapper show the net quantity of each content, so long as those net quantities are displayed elsewhere on the box or bag

of candies or at the point of sale. The Council noted that savings in the cost of wrappers (that is, the cost of discarding unused wrappers as their content information became obsolete) could be passed on to consumers. However, the Council took issue with the potential magnitude of the savings claimed by the National Confectioners Association. The Council suggested that FDA carefully assess these potential savings in order to determine whether they outweigh the value of the reduction of available consumer information. This matter is still pending before the FDA.

On May 19, 1975 the Council also filed a pleading with the CAB, requesting that it suspend and investigate 5 percent and 6 percent domestic passenger fare increases filed respectively by Trans World Airlines and American Airlines. The Council argued that the information filed by these airlines with their tariffs did not support any additional fare increases. On June 13, 1975, the CAB did suspend the proposed 5 percent and 6 percent increases, and then extended the existing domestic rate schedules until January 14, 1976. The CAB also ordered, as the Council had requested, that there be hearings to review its existing load-factors and rate-of-return standards for rate decisions.

On May 23, 1975, the Council's Assistant Director for Government Operations and Research testified on behalf of the Council at hearings of the National Highway Traffic Safety Administration on its proposed Motor Vehicle Safety Standard No. 208, which would require that cars for model year 1977 and thereafter be equipped with passive restraint protection. The Council has studied the economic impact of this proposal in depth and is concerned that it would result in the installation of "air bags" despite a lack of field experience (especially for small cars) as to the likely costs and effectiveness of this equipment.

In May, the Council released a staff report of its study of the price spreads between the farm value and the food retail prices of food products. This report identified the major reasons for variations in the amount of these "market spreads" and presented the Council staff's conclusion that the farmers' long-range share of the retail cost of food is a stable one.

On June 9, 1975, the Council transmitted comments to the National Highway Traffic Safety Administration (NHTSA) regarding the Uniform Tire Grading Quality Standards. The Council expressed its satisfaction with the comprehensiveness of NHTSA's inflationary impact analysis. However, the Council disagreed with some of the claimed benefits and questioned the accuracy of the costs estimates. The Council felt that overall the costs of the standards exceeded the benefits.

On June 16, 1975, the Council submitted comments to the Federal Energy Administration regarding FEA's inflationary impact analysis of the proposed deregulation of domestic oil production classified as "old crude." The Council did not take issue with the basic program but identified areas to which FEA could devote more conscientious analysis.

On June 18, 1975, the Council submitted comments to the Federal Energy Administration (FEA) regarding FEA's inflationary impact analysis of the coal conversion program under the Energy Supply and Environmental Coordination Act of 1974. The Council recommended that FEA include in this analysis the agency's estimate of the cost impact on consumers, and that FEA include a broader range of possible values for important variables in the analysis.

On June 24, 1975, the Council staff submitted comments to the

Department of Housing and Urban Development (HUD) regarding HUD's proposal to require professional certification of housing managers in the public housing program. The Council pointed out problems that often arise with operational licensing schemes and urged HUD to consider more carefully the potential adverse economic consequences of its proposal.

In late June, the Council asked the three major U.S. producers of aluminum to delay for a thirty day period price increases that they had announced to become effective on July 7. The companies agreed to this delay. During this period, the Council held a public hearing (July 21 and 22) on these price increases. Representatives of the aluminum companies, aluminum consumers and economists participated in the hearing.

In June 1975, the Council released a staff study on price increases in the metal can industry. This study, the result of a six-month effort, noted (i) the substantial 1974 profits in the industry, (ii) the countervailing increases in tinplate and labor costs, and (iii) that price increases announced by members of the industry in January 1975 had not held, because of competition principally from other container industries (for example, bottle and plastic container manufacturers).

On July 3, 1975, the Council commented on the EPA economic analysis of effluent guidelines for the wood furniture and fixtures industry. It was felt that costs were relatively low but that the benefits needed to be substantiated in order to justify even the low costs.

On July 9, 1975, the Council submitted comments to the Food and Drug Administration (FDA) in support of FDA's proposal to require less costly labeling of certain dairy product containers.

On July 14, 1975, as part of an interagency review, the Council staff submitted comments to EPA regarding proposed noise emission standards for diesel locomotives. The Council took the position that while the costs were relatively low, there did not appear to be sufficient benefits to justify even the low costs.

On July 25, 1975, the Council submitted comments to HUD concerning its proposed Mobile Home Construction and Safety Standards. The cost of the safety and general quality portion of the standard is estimated at $877 million over five years, but there is no documentation of benefits. The Council concluded that the economic analysis provided by HUD does not contain sufficient information to make a judgment on the proposed standard except with respect to its energy conservation elements (which do appear to be economically justifiable). The Council urged that the effective date of this standard be postponed to permit HUD to complete the needed research and to make such changes in the standard as may be indicated by this research.

On August 4, 1975, the Council submitted comments to the Federal Trade Commission regarding FTC's proposed regulations concerning the disclosure of retail prices for prescription drugs. The Council stated that it favored removal of restrictions on price disclosure and advertising by retail pharmacies, since permitting such price disclosures to take place may lead to greater price competition among pharmacies and to a lower average price for prescription drugs.

At the same time, the Council announced the commission of a study on the likely economic effects of various proposed federal regulations dealing with the manufacture, testing, and marketing of prescription drugs. The regulations to be studied include the Department

of Health, Education and Welfare's recently announced Maximum Allowable Cost (MAC) reimbursement formula for Medicare and Medicaid prescriptions, the Federal Trade Commission's proposed rules on pharmacy advertising and two rules proposed by the Food and Drug Administration—one proposing procedures for establishing a bioequivalency requirement and the other dealing with premarketing approval of drugs.

On August 6, 1975, the Council commented on FEA's proposed rules affecting profit margin limitations used to determine nonproduct cost pass-throughs by refiners and marketers. Although the inflationary impact analysis appeared reasonable, the Council was concerned with the absence of any benefits. The Council's review concluded that the proposal, as analyzed by FEA, will only add to inflation.

On August 11, 1975, the Council submitted comments to FEA on the latter's proposed rules to make degree (API) price differential adjustments in "old" crude in California. FEA concluded that this change was not "major" and the Council expressed its concern about the analysis underlying this determination. The Council concluded that this proposed rule represented a form of selective decontrol and that FEA should be obligated to analyze the overall impact.

On August 14, 1975, the Council submitted comments to the Federal Aviation Administration concerning assessment of the potential economic impact on the U.S. carriers of allowing foreign supersonic airplanes access to U.S. airports on a regular comercial basis. The Council position is that the overall effect of the limited operations of the Concorde recently proposed on the revenues of the U.S. flag carriers is likely to be small. Furthermore, offsetting this effect is the benefit of the increased competition and the greater number of travel options opened up to U.S. citizens traveling the North Atlantic.

On August 19, 1975, the Council (along with FEA and DOT) jointly petitioned the CAB to adopt temporary procedures to permit the airline industry to cope with increases in fuel prices resulting from decontrol in a manner that would minimize inflationary pressures.

On August 27, 1975, the Council urged the CAB to suspend and investigate domestic passenger fare increases proposed by Braniff Airways, Continental Airlines, Frontier Airlines and Trans World Airlines.

In August, the Council released a report on its study of the economic impact of the use of cost-of-living escalator clauses in collective bargaining agreements. This report was prepared by the Council by H. M. Douty, an economic consultant with substantial experience in the collective bargaining area.

Future Council Activities

During the next three months, the Council staff plans to continue an active program of monitoring prices, wages and government activities.

In the private sector, a major effort will be the preparation of a background paper on the 1976 collective bargaining calendar. The paper will review trends in wages, living costs, productivity, and unit labor costs, and will analyze economic aspects of the contracts which will be expiring in such industries as over-the-road trucking, rubber, elec-

trical equipment and autos. The Council staff will also continue its efforts in analyzing the pricing patterns of concentrated industries.

In the public sector, the Council staff will continue its review of the economic impact of proposed governmental regulations through the inflation impact statement program and will also continue to make filings in agency proceedings that have a potentially inflationary impact. In addition, the staff will undertake a study of the economic effects of a variety of existing government regulations and practices dealing with the marketing of milk products.

CHAPTER II

MONITORING THE PRIVATE SECTOR

The responsibilities of the Council on Wage and Price Stability include the preparation of industry studies which review and analyze industrial capacity, profits, prices, demand, supply and the effect of economic concentration and anticompetitive practices in various sectors of the economy. They also include efforts to encourage price restraint in the private sector. In addition, the Council has a responsibility to work with labor and management in order to improve the structure of collective bargaining and to conduct studies of labor markets in an effort to restrain inflationary forces. The Office of Wage and Price Monitoring has the primary responsibility for carrying out these functions.

During the three month period from May through July 1975, the Council staff released two studies (Sugar Prices and Metal Can Prices), completed its steel study, expanded and updated its preliminary report on aluminum, and continued its work on three other studies: industrial chemicals, agricultural implements, and tires and tubes. In addition, outside consultants continued their work on four other projects: (1) the adequacy of the Wholesale Price Index for price monitoring purposes; (2) coal prices; (3) bakery and cereals products prices; (4) hospital wages and prices. On July 21 and 22 the Council conducted public hearings on proposed price increases on a series of aluminum products. Further, during this quarter the Council initiated a new study on the price behavior of automobiles.

Complementing its efforts on the price side, the staff has devoted its attention to collective bargaining issues in the construction industry and the Postal Service. The Council also released a report by Dr. H. M. Douty, *Cost-of-Living Escalator Clauses and Inflation.*

Collective Bargaining

The Council's chief concerns in collective bargaining during 1975 have been the negotiations in the Postal Service and the construction industry.

Agreement was reached between the Postal Service and four postal unions representing some 600,000 postal workers in "eleventh hour" bargaining; the settlement provided for an increase in base salary of 11.8 percent over the next three years, or a 3.8 percent annual increase. This is a moderate figure in itself, but because of a cost-of-living clause in the contract the total increase will depend on the behavior of the Consumer Price Index over the next three years. If the CPI rises at an average rate of 6-7 percent, postal workers' pay increases will average about 8 percent—or twice the negotiated increase in salary alone. Success in combating rising prices will thus determine how moderate the postal settlement turns out to be.

The Council has been concerned with bargaining in construction both because of the key place this industry occupies in the economy and

because its craftsmen receive wages that are among the highest of any manual workers. These wage increases often serve as targets for other unions. This is particularly true on the Pacific Coast where recent gains have averaged 13 percent, several percentage points higher than anywhere else in the U. S. Working in cooperation with the Collective Bargaining Committee in Construction, the Council became involved in pipe trades negotiations in both the Pacific Northwest and the San Francisco Bay Area.

After a series of meetings between Council and industry officials in Washington last Spring, progress has been made toward stabilizing the bargaining situation in the Bay Area. Six local unions of plumbers and pipefitters agreed with a single coordinated employer bargaining group to a common wage increase and common expiration date. The first year wage increase was not small (about 11 percent); but the second year increase was less than 10 percent, and the parties agreed to meet regularly to work out problems under the agreement. This contract, which covers the Bay Area excluding the city of San Francisco, is a hopeful step toward stability and moderation. A further step must be taken when the San Francisco contract expires next Spring.

Results in the Pacific Northwest were not as encouraging, and the Council held a formal hearing in Seattle on July 15 to discover ways of stabilizing the situation in the state of Washington where separate contracts with different wage rates and expiration dates create the conditions for a classic round of "leapfrogging." The Council has released a staff report on the hearing, and has presented specific recommendations for dealing with the problems it discovered to the Collective Bargaining Committee in Construction.

The Council is also embarking on a study of construction bargaining patterns and problems in the five major West Coast metropolitan areas of Seattle, Portland, San Francisco, Los Angeles and San Diego. The study will examine historical wage trends for important crafts and identify obstacles to improving the structure of bargaining in the industry in order to stabilize wages. Actions to overcome these obstacles will be recommended to the Secretary of Labor and the Collective Bargaining Committee in Construction. The findings from this study will represent an important effort to improve the structure of collective bargaining in a critical sector of the economy.

Agricultural Machinery

The Council initiated a study of the agricultural machinery industry in June because it is concerned about the potentially inflationary impact on food prices from increases in the prices of farm machinery. Increases in these prices will increase farmers' costs, thereby squeezing the profits of agricultural producers and adversely affecting future production.

Preliminary analysis of published materials indicates that the agricultural machinery industry was operating at capacity levels for most of 1974. With farm income down from its record 1973 level, production and shipments of agricultural machinery have fallen during 1975. Although shipments are down, the BLS Wholesale Price Index for July 1975 shows that prices of agricultural machinery have increased 17.1 percent from the previous July and 5.1 percent since the end of 1974. The wholesale prices of tractors and large pieces of

machinery have risen more than prices of other agricultural equipment and smaller pieces of machinery.

The Council staff has requested the seven largest manufacturers of agricultural machinery to submit cost and price data for 1974 and the first two quarters of 1975. These companies, each of which manufactures a full line of agricultural machinery, account for over half of total machinery sales. Analysis of this information will focus on the demand and supply conditions facing the manufacturers over the last eighteen months. The demand for agricultural machinery is a derived demand, stemming from the demand for agricultural products, both export and domestic. Machinery demand is also heavily dependent on the effect of shifts in agricultural demand on farm income. Supply conditions depend in large part on the capacity utilization of the industry and the costs of labor, materials, and other important manufacturing inputs.

The study will involve an analysis of corporate financial data with emphasis on recent profit margins and the level of investment. In addition, the study will examine profit variability over the business cycle and its relationship to long-term investment decisions.

Aluminum

The Council's study of the aluminum industry, prompted by the combination of declining shipments and downward price rigidity, was begun in January 1975 by collecting price and cost information from the leading aluminum companies. These data were supplemented by meetings with aluminum company executives, by solicited and unsolicited communications with commercial users of aluminum, and by public information obtained from the Bureau of Labor Statistics. A preliminary report had just been drafted when the major aluminum producers announced a series of price increases, which were for the most part scheduled to become effective on July 7. The increases outlined were on primary ingot and a range of mill products. The list price of ingot was to be raised 5 percent from 39 cents to 41 cents per pound. Across the entire spectrum of products, the scheduled increase averaged about 3 percent.

On July 3, a news conference was held by Dr. Albert Rees, then Director of the Council, to announce that the major companies had been asked by the Council to delay the proposed increases for 30 days. This request was made to allow the Council to analyze the cost data that the companies agreed to submit. Dr. Rees also announced the Council's intention to hold hearings in order to put relevant factors pertaining to the announced price increase on the record. The companies complied both with the requests for the delay and for the submission of additional cost data. They also agreed to participate in the hearings, which were held on July 21 and July 22. In addition to representatives from major aluminum producers and members of the Council staff, other hearing participants included industry analysts, academic economists, and commercial users of aluminum.

At the hearings, the industry representatives argued that the proposed price increases were entirely justified by rising costs, which had increased by about 15 percent since the last general price increase in September 1974. They argued that cost recovery, which they felt would improve profitability, was necessary to support and encourage in-

vestment in new primary aluminum capacity. They argued that such increases in capacity were crucial in order to avoid bottlenecks that could result from a projected aluminum shortage.

The Council observed that the size of the cost increase described varies greatly if base periods other than the third quarter of 1974 are used as a reference point. It was also observed that there had been some price relief since September of 1974. In spite of this, it was conceded by the Council that the industry had experienced increasing costs, which had diminished the favorable gross margins established by third quarter 1974. It was further noted, however, that excellent profits can be made at a time when margins are squeezed. The example cited was second quarter of 1974, when shipments were at very high levels and prices and margins were controlled by government regulation. The Council's contention was that the major difficulty facing the producers, and the crux of their problems today, is the current recession and its associated slump in demand. Regarding new investment, the Council observed that investors should be interested not so much in present performance, but in anticipated future performance. Hence, poor profits caused by a cyclical downturn are not necessarily a deterrent to investment.

Pursuant to the hearings, the Council staff issued a statement regarding its position on the announced price increases, which, having been delayed, were scheduled to take effect in early August. The Council recognized that some of the increase in costs will have to be eventually recovered through higher prices or increased productivity. It was made clear that the Council disagreed with the timing of the increase, coming as it did in the presence of low capacity utilization. However, the Council declined to substitute its judgment for that of the companies in this particular case where a rise in costs has been well documented. After this statement was released the various companies announced that the list price increases would take place as planned.

The staff is in the process of supplementing and updating its preliminary report with the more recent price and cost figures supplied by the companies, and with additional information generated by the hearing proceedings. This study will discuss trends in pricing, profits and the market structure of the aluminum industry in some detail. It will also review evidence of certain structural and pricing problems pertaining to market relationships between primary aluminum producers and nonintegrated producers of aluminum products.

Automobiles

The Council staff began its study of the automobile industry in early July in anticipation of the announcement of 1976 model prices. Letters were sent to the four domestic automobile producers requesting detailed information on costs, prices, sales and output. The four companies complied with the requests. Officials of three of the companies also paid personal visits to this office to discuss the data and answer questions.

The cost data supplied by the companies provided a breakdown of the companies' costs per vehicle calculated at a constant volume of output. Actual volume for the 1975 model year was in all cases less than the assumed volume. This cost information indicates that as of Septem-

ber the unit cost of a 1976 passenger car carrying the average amount of optional equipment will exceed the unit cost of a comparable 1975 car by about 8 to 9 percent of the 1975 wholesale price. Anticipated cost increases during the model year are expected to raise per unit costs by an additional two percent of the average wholesale price by July 1976.

These cost increases have occurred, however, at a time when total domestic demand for passenger cars has fallen by approximately 16 percent from the 1974 model year, which already was depressed. The comparative sales records of imported and domestically produced cars suggests that demand is more elastic than the U. S. producers claim, particularly for low-priced cars. During the first 10 months of the 1975 model year, U. S. purchases of imports increased by 8.6 percent while sales of the domestic producers decreased by 20 percent. This has resulted in an increase in the imports' market share from 15 percent in the 1974 model year to 19 percent in 1975. Moreover, some of the U. S. producers have indicated that they consider the increase in the imports' market share to be a temporary phenomenon, and believe that this share will fall to 16 percent for the 1976 model year. The optimism of the American producers has been based on the encouraging increase in their May sales, which combined with a decrease in the number of imports sold led to a drop in the imports share from 21.4 percent in April to 18.6 percent in May. Since May, however, the imports have continued to obtain approximately 20 percent of the market. For example, in July, the latest month for which data are available, the imports share equalled 19.6 percent compared to 14.6 percent a year ago.

The prices for the 1976 models announced by General Motors indicate a pricing policy designed to cope with the overall fall in demand for automobiles and the increased popularity of imports while simultaneously enabling General Motors to recover a sizeable proportion of its increased costs. General Motors' policy has two prongs, both designed to minimize the size of the increase that is visible to the public. One prong increases the wholesale price, the only price that General Motors can directly control, by considerably more than the retail list price of the base car. Specifically, General Motors has increased the average price of its 1976 basic car equipped with the same equipment as the 1975 base car by 5.9 percent at the wholesale level and by 4.4 percent at the retail level. This action has the effect of reducing the dealer's margin. It therefore can be expected to reduce the discount from list price or the trade-in allowance that the dealer will be willing to allow the purchaser. Since few car sales actually take place at the list price, it is not at all clear how much the actual transaction price will rise under General Motors' pricing policy. If General Motors is correct in its assessment that demand is recovering, there will be less pressure for the dealer to discount and therefore the actual transaction price will increase by more than 4.4 percent. If, however, demand does not pick up General Motors may find that it cannot make the large price increase at the wholesale level stick and will be forced to hold dealer contests and/or offer rebates to the dealer.

The second prong of General Motors' announced pricing policy involves removing equipment that was previously standard while simultaneously increasing the price of the optional equipment by a considerably higher percentage than the base car price. After removing

equipment, the 1976 retail price of the base car will be up by an average of only 4 percent over the 1975 retail prices. By contrast, the average price of a car with the average amount of optional equipment purchased by the consumer will have a sticker price increase of 4.7 percent. This policy has the effect of minimizing the increase in (and in some cases actually decreasing) the highly visible sticker price of the base car. This is the price that appears in industry advertisements and has received the most attention from the press.

The policy of removing previously standard equipment has the advantage of giving the public the opportunity to buy basic transportation without unwanted equipment. To the extent that the manufacturers remove equipment that the public considers of little or no value, the customer will effectively receive a price decrease.

The automobile industry is, of course, highly concentrated with only four domestic producers accounting for approximately 80 percent of all sales. Although per unit costs have already increased by 8 to 9 percent of the 1975 wholesale price, automobile sales of domestic producers have been down approximately 20 percent in the first 10 months of the 1975 model year. In a competitive industry such a decrease in demand would put considerable downward pressure on prices. To some extent this has occurred in the automobile industry during the last year. Prices to retail purchasers have been reduced by means of rebates to both the customer and the dealer. Although the companies are experiencing increased costs, the need for rebates and dealer sales contests to sell the 1975 models suggests that a price increase at this time will meet considerable buyer resistance. Given these circumstances the Council will continue to monitor cost and demand developments in this industry.

Industrial Chemicals

Early in 1975, the Council began to monitor the prices of a number of industrial chemicals which had doubled during 1974. The prices of these chemicals kept well ahead of rising energy and hydrocarbon costs as demand increased production to capacity levels. With price serving as the basic mechanism for allocating supplies, the profits of chemical companies rose dramatically during 1974.

Depressed economic conditions began to show up in the chemical industry in early 1975 and production was reduced to 65 to 70 percent of capacity by the second quarter of 1975. According to BLS data, the prices of industrial chemicals fell at an annual rate of roughly 11 percent in June 1975. Several of the chemical prices under study by the Council fell significantly throughout the first six months of 1975. Notable exceptions were the basic inorganic chemicals, chlorine and caustic soda (sodium hydroxide).

The prices of chlorine and caustic soda rose 22 percent between December 1974 and May 1975. In June 1975, a major producer announced further price increases for caustic soda; other producers quickly followed with similar price increases. A general picture of the price-cost performance for these two products is shown in Table 1. All series are in index form with the first quarter of 1974 used as the base.

It is apparent that although the BLS series has understated price movements in these products, the series are in close agreement with the CWPS price series. Thus the substantial increases in the BLS series

for the first and second quarters of 1975 must be viewed with concern. It is further apparent that the costs of major inputs used in the production of these two products began to rise notably in late 1974. However, the magnitude and timing of these cost increases do not seem to be related to the further substantial increases in the price series of *both* products in 1975. Further, the apparently substantial profit margins realized on these products in 1974 together with the depressed demand conditions of early 1975 would not appear to justify further price increases at this time. Consequently the Council has initiated a more detailed investigation into the pricing of these two products.

This investigation is now underway and a preliminary report is being prepared. Requests for data have been sent to a number of chemical companies and individual discussions are being held to clarify pricing policies as they relate to the data requests of the Council.

TABLE 1.—Index of Price and Cost: Chlorine and Caustic Soda by Quarters, 1974–75

Price and Cost Indexes	1974 Quarters				1975 Quarters	
	First	Second	Third	Fourth	First	Second
BLS Price Index						
Chlorine	100	112	133	154	179	193
Caustic Soda	100	112	132	163	194	215
CWPS Price Index						
Chlorine	100	116	138	158	*	*
Caustic Soda	100	114	136	160	*	*
CWPS Index of Unit Costs	100	101	113	126	*	*

* Data currently being obtained by the CWPS.

Chlorine and caustic soda are co-products of a common production process. The chemical companies are the major users of both products, though use of chlorine by fully integrated firms appears more extensive than that of caustic soda. Since relatively more caustic soda is sold in the commercial market, a reduction in chlorine production can cause a "market shortage" of caustic soda. Further, whereas caustic soda is regularly inventoried, it is dangerous and expensive to store chlorine in either liquid or dry form. The result is that current demand for chlorine determines to a large extent the current supplies of both chlorine and caustic soda.

The largest use of chlorine is in the production of a series of products that may be termed plastics materials. The latter are used extensively in the transportation and housing sectors of the economy. The slump in these sectors apparently began to affect the sales of plastics materials in November of 1974. The subsequent drop in the demand for chlorine led to production cuts in chlorine/caustic soda plants, reducing capacity utilization to roughly 65 percent by June 1975. In this setting the price of caustic soda was increased. The increase can be largely explained by the "shortage" brought about by the production cuts in chlorine as the demand for chlorine fell.

As can be seen in the BLS data reported in the above Table, the price of chlorine continued to rise throughout the first six months of

1975. This is unresponsive to the demand conditions confronting this product and tends to further aggravate the "shortage" of caustic soda if the demand for chlorine is at all price responsive. Further movements of the price of chlorine will be closely watched by the Council.

The continuing study will focus on the nature of the technical relationship between energy and hydrocarbon inputs, their prices, and the relative price movements of chlorine and caustic soda. Recent profit performance will be examined, and the near term outlook for prices assessed in view of long term capital needs.

Finally, certain structural conditions that bear on the pricing of these chemicals will be reviewed. The results of this study may be used by the Council to aid in monitoring the prices of various chlorinated chemicals.

Tire Prices

Early in 1975 the Council began to monitor the prices of tires at the manufacturers level, and this study has been continued. Preliminary analysis of the data originally received from six companies indicates that costs (particularly of petroleum based materials) and prices rose substantially throughout all of 1974.

The recession hit the industry with some severity in the fourth quarter of 1974 and in the first quarter of 1975. Part of the decline of course, is traceable to the recent slump in automobile production. The replacement market also suffered a decline as automobile owners drove less and postponed the replacement decision for an abnormally long time. The only strong point in the demand for tires has been recent signs of recovery in the replacement market (second quarter 1975).

Trade associations report that there has been considerable discounting from list prices at the retail level. In the first half of 1975, however, the WPI for tires was stable. This raises, yet again, the question of the congruence between list prices reported to the BLS and transaction prices in the market place. Shipments increased markedly in the second quarter of 1975 compared to the first quarter of the year, reflecting the resurgence of buying in the replacement market. The tire manufacturers have responded to these improved demand conditions by raising list prices roughly between 4 and 6 percent, actions reflected in the July 1975 observations in the WPI.

This quick turn-a-round in prices occurred when the industry was only beginning to experience a recovery from the depressed market conditions of the very recent past. Additionally, the industry and the United Rubber Workers will negotiate a new collective bargaining contract in the spring of 1976. Hence, the Council will continue to monitor this industry.

Staff Study of Steel Prices

In late December 1974 the Council began an inquiry into steel prices that led to a partial rollback of price increases announced by three large steel companies. In conjunction with this inquiry the staff of the Office of Wage and Price Monitoring undertook a large scale study of steel prices. This study consists of a description of price changes in 1973 to 1975, an attempt to understand why these changes had occurred, and an effort to make some near term projections of

what is in prospect in the steel industry. The following is a summary of the completed study.

The steel industry is an oligopoly of relatively few sellers. Prices are not determined simply by the interaction of supply and demand as they would be in a more competitive industry. List prices are set so as to yield the target rate of return at levels of production significantly below capacity, although these prices do not always hold up in the face of competitive pressures. The chief limits on such price movements have been overseas competitors and governmental opposition.

There is a degree of flexibility in steel supply despite the oligopolistic structure of the industry. In addition to Japanese and European exports which are highly competitive on price, domestic minor mills provide another important element of price competition. Some U.S. minor mills operate very efficiently on scrap, the price of which moves widely in response to market conditions. These mills may find their costs of production dropping significantly during periods of recession and therefore have a strong incentive to expand sales by reducing prices below those of the leading firms. Further, brokers, surplus dealers, and some service centers provide additional price flexibility by locating and buying and selling inventories in tight markets, and by selling excess supplies at reduced prices in recession.

The study also analyzed profit levels and rates of return. Profits depend on both net income *margin* per ton or dollar of sales and *volume* of tons or sales. From 1946 to 1957, both margin and volume were at historically high levels and profits were therefore also high. From 1958 to 1972, both margin and volume were diminished (primarily due to import competition that prevented price rises and took away sales volume) and hence profits were lower. In 1974 the steel industry had one of its most profitable years ever because of very high volume and very high margins. Because of the recession, 1975 has seen a decline in steel profits. Despite the deterioration of price-cost ratios, margins are still moderately high for the most part, and if volume were to increase the industry would realize substantial profits.

Another issue investigated by the staff report was the argument that a large expansion of domestic steel capacity is needed for growth and that higher prices are necessary now in order to provide the cash flow and profits needed to finance such expensive investment. The steel industry estimates that 30 million tons of additional annual raw steel capacity is needed by 1980, necessitating investments of $2.4 billion per year. The Council study estimates that about half that much new capacity will be needed, requiring investment of $0.9 billions per year. (The industry's estimate is more than double the Council's because it includes the construction of a larger number of complete plants.) Other sources give various estimates between these figures. Profits and other cash flows from recent and present levels of steel prices and costs combined with access to capital markets appear to be adequate to finance the estimated steel expansion. This prediction is based on the assumption that production volume will return to high levels. If production does not rise to full capacity rates, expansion of capacity would not be required.

Industry spokesmen state that higher future prices will be required to meet the costs of environmental regulations. Although this additional cost will eventually have to be reflected in steel prices and paid for by steel consumers, it amounts to a small figure by 1980. The industry

suggests, however, that the elimination of so-called fugitive or trace emissions by 1983 may be much more costly, and therefore have a larger effect on long run prices.

Finally, the study concludes that neither the recent rapid inflation, nor prospective further inflation at more modest rates justify an across-the-board price increase at this time. In the nine months following price decontrol, steel price rises substantially outpaced increases in wages and some other input costs. Although some costs have risen since prices were last raised in January 1975, during the entire period since price decontrol unit price increases probably have equalled or exceeded cost increases.

The steel industry's real problem at present is the same as the nation's: the recession and reduced national output and income. The solution must be in higher levels of national income as well as steel output. Attempting to sustain profit levels in the face of reduced demand by increasing prices is likely to intensify competitive pressures on the major steel producers and to hinder a sustained non-inflationary recovery for the economy.

A Concluding Comment

In a number of recent instances the Council has been presented with two basic arguments when it has requested explanations and supporting data for price increases announced by firms operating in concentrated oligopoly industries. These arguments are "cost justification" and "capacity expansion justification."

Reduced to general terms the "justification" arguments are made up of the following:

1. Since the last price increase in the industry under consideration, various inputs used in production have risen in price, causing a rise in per unit costs of production. The rise in per unit costs of production is measured by weighting the various inputs in proportion to their relative importance in the production process, and is calculated on the assumption of full capacity utilization so as to avoid distortions in cost data due to operating at inefficiently low rates of utilization.

2. The rise in per unit costs has caused the profit margin per unit produced to drop. Total profits have declined not only because of the narrowed profit margin, but also as a result of the decline in the number of units sold.

3. In order to offset partially the decline in total profits due to a combination of falling demand and rising input costs the firms are "justified" in raising prices by the full amount of the rise in per unit costs in order to restore the profit margin that existed at the time of the last price increase. Additional decline in units sold resulting from such a price increase would be minimal because of the inelastic nature of the demand for the industry's product.

4. If demand for the product of the industry expands by the amounts forecast during the next five to ten years current capacity will be insufficient to meet demand. Current prices would not yield sufficient profits for a new plant operating at full capacity to justify such an investment. In order to ensure that sufficient expansion of capacity takes place, the firms are "justified" in raising prices to a level which would enable new investment to earn acceptable levels of profit.

5. In recognition of depressed market conditions and a responsibility

to contribute to overall economic performance the firms are raising prices by an amount less than the amounts "justified" in points 3 and 4.

The Council staff, in accordance with its legislative mandate, has examined, studied and evaluated the *factual* content of the arguments outlined above. Company submissions, government data and public information have been collected, checked and analyzed by the staff. Unfortunately, the efforts of the staff to evaluate the factual content have created the mistaken impression in some minds that the analytical content of the argument is accepted by the Council as the correct framework within which to monitor inflationary actions.

On the contrary, the staff believes that the implicit theory is incorrect because of the failure to distinguish between short-run and long-run considerations and because of its acceptance of the selection of the date of the last price increase as reflecting a socially desirable norm which should be re-established. Economic theory recognizes that in the long-run prices must be at a level which allows for the recovery of all costs of production plus a normal rate of profit including risk premiums in those industries characterized by above average instability. There is no analytical reason why prices must or should cover full costs in the short-run. In periods like the current one, when the economy is recovering from the worst recession in forty years, it is to be expected that in some industries prices will fall below total costs per unit (but not below variable costs per unit) leading to economic losses. In other industries prices will fall relative to unit costs of production, leading to lower profit margins. Indeed, economic theory maintains that in order for prices to allocate resources appropriately prices should be equal to the incremental costs, which implies below normal profits when operating below capacity (the minimum point on the average cost curve).

Similarly, investment will not take place unless future prices are expected to be high enough so that the discounted value of expected future revenues exceeds the discounted value of expected future costs and yields at least a normal profit over the life of the new assets. Although short-run prices, costs and profits have an influence on expectations about future conditions it is not necessary that satisfactory profits be earned at each and every moment in time in order that investors have favorable expectations about future profitability.

CHAPTER III

MONITORING FEDERAL ACTIONS

The Office of Government Operations and Research is responsible for monitoring regulatory activities of the Federal Government which may contribute to inflation. The Council's analytical efforts are aimed primarily at proposals from Federal agencies for new rules, regulations and standards. In addition, however, the Council tries to identify and appraise existing Federal regulations and practices which significantly contribute to inflationary pressures. In these efforts the Council welcomes suggestions from government officials and members of the public about regulations which warrant Council review.

Based on its appraisal of such regulations, the Council attempts, through formal and informal staff comments and testimony, to make government decision-makers more sensitive to the full economic impact of their agencies' activities. As the Council recognizes, the mere fact that a governmental action may impose significant additional costs upon the economy as a whole or upon some segment of it does not mean that the action is necessarily "inflationary." It may generate benefits that equal or exceed the costs. However, the Council believes that the current heightened concern over inflation requires that agencies proposing cost-increasing actions be particularly careful to assure both themselves and the public that the tangible and intangible benefits of such actions do indeed exceed the costs they will cause others to bear. Agencies also have a particular duty to reexamine past actions in the light of changed economic circumstances to see that such decisions are still justified.

Furthermore, the Council urges agencies to make full use of whatever administrative discretion they have concerning the timing of the implementation of rules, regulations, and standards if by doing so short-run inflationary pressures can be eased. This is especially true where a particular segment of the economy has been or is likely to be confronted with a large number of costly government actions, all of which may be implemented over a relatively short period of time.

In carrying out its responsibilities, the staff of the Office of Government Operations and Research monitors the Inflation Impact Statement program, participates formally and informally in regulatory agency proceedings, and sits on the Domestic Council Review Group which is charged with overseeing the President's regulatory reform initiatives.

Inflation Impact Statement Program

The Council plays a major role in the President's Inflation Impact Statement Program.* The purpose of this Program is to encourage Federal agencies to take greater account of the economic effects of

* Established by Executive Order No. 11821 issued November 27, 1974, and OMB Circular No. A-107.

their proposals for major new rules, regulations and legislation. The Council's role in this Program is to serve as a catalyst for improved agency analysis.

Executive Branch agencies are required to submit to the Council brief summaries of their evaluation of the economic impact of proposed major new rules and regulations. The Council monitors these Inflation Impact Statement summaries. When it has questions about a particular summary or about the agency proposal itself, the Council asks the agency to submit its complete economic analysis for the proposed rule or regulation.

Based on its review of the agency's analysis, the Council may decide to make formal comments to the agency about the quality of its Inflation Impact Statement analysis and/or about the economic consequences of the regulatory proposal itself. It should be noted that criticism of an Inflation Impact Statement does not necessarily mean the Council objects to the proposed regulation. It simply means that the Council thinks the agency should provide a better analysis of the regulation's likely economic effects. The Council's aim is to help agencies improve the quality of their economic analysis so that important regulatory decisions are made with fuller awareness of their economic consequences.

Considerable progress has been achieved in the implementation of this Program. In consultation with OMB and the Council, most agencies have established satisfactory criteria for identifying those proposals which are sufficiently important to require an Inflation Impact Statement. Problems which were serious at the Program's outset—particularly tardy compliance and low quality analysis—are gradually being resolved. While the Council has filed critical comments in a number of rulemaking proceedings, most agencies are making a commendable effort to analyze more carefully the major rules and regulations they issue.

This chapter includes brief summaries of filings the Council has made during the May-June-July quarter. Copies of the filings themselves are available upon request from the Office for Public Affairs and Congressional Relations, Council on Wage and Price Stability, 726 Jackson Place, N.W., Washington, D.C. 20506 (202-456-6757).

Airline Fares

In May the Council staff filed comments with the Civil Aeronautics Board (CAB) concerning two issues—proposed passenger fare increases and charter travel proposals.

Passenger Fare Increases. The Council urged the CAB to suspend and investigate passenger fare increases filed by American Airlines and Trans World Airlines. American Airlines sought a 6 per cent domestic passenger fare increase while TWA sought a 5 per cent increase. Both airlines additionally sought renewal of the temporary 4 per cent fare increase which had been granted the previous Fall and was due to expire June 30, 1975. The Council had originally argued that the temporary 4 per cent increase was not justified. This argument was repeated in urging the Board to roll back the 4 per cent increase; the Council also argued that the additional increases sought by the airlines similarly were not justified.

The airlines contended that higher fares are necessary in order to allow the airlines the 12 per cent target rate of return established by

the CAB. The Council argued that price increases are not warranted, given present overall economic conditions, for the purpose of maintaining profits at the target level. The Council believes that the airlines have no more reason than have firms in other industries to expect 1975, a year of generally low capacity utilization, to produce "full" profits.

The Council further urged the Board, in considering any fare increases, to satisfy itself that: (1) the demand elasticity is such that higher fares would yield higher revenues; and (2) the airlines have made every effort to reduce their operating expenses.

In June, the CAB suspended the proposed increases, and it extended the existing domestic rate schedules until January 14, 1976. The CAB also ordered that there be hearings to review its existing load-factors and rate-of-return standards for rate decisions.

Charter Travel. The Council recommended implementation of two proposals to establish new types of low cost charter travel (one-stop inclusive tour charters and special event charters). Both types of charters are designed to make low-cost travel more widely available, thereby bringing the benefits of air transportation to a large segment of the population now unable to afford it. The Council has consistently urged the CAB to adopt policies which would broaden the travel opportunities of highly price-sensitive discretionary travelers. Given the current economic situation of the airlines, with load factors at very low levels, it is the Council's view that the availability of low cost charter travel would be beneficial to both the traveling public and the airline industry. In urging implementation of both charter plans, the Council recommended that no limitation be imposed in advance on the number of flights that could be operated and that the Board incorporate as much flexibility as possible in establishing any minimum tour prices. In early August, the CAB adopted these proposals with minor changes.

Noise Abatement

During this quarter, the Council staff made formal comments on three regulatory proposals that would set new standards for occupational noise, truck noise, and aircraft noise.

Occupational Noise. On June 25, in testimony before the Occupational Safety and Health Administration (OSHA), the Council staff renewed its call for the Environmental Protection Agency (EPA) and OSHA jointly to sponsor research on all of the relevant costs and benefits associated with a lower occupational noise level standard before such a standard is implemented. Urging that such a study be made on an industry-by-industry basis, the Council argued that there is insufficient "hard" data on which to base a decision which could create potential industry costs of $32 billion. The Council also urged that the feasibility of personal hearing protectors be given serious consideration. The matter is still pending before OSHA; OSHA has indicated it will prepare ah inflation impact statement for public comment prior to issuing a final regulation.

Truck Noise. Continuing its involvement with EPA's noise reduction standards, the Council on Wage and Price Stability submitted formal comments on the agency's proposed noise emission standards for medium and heavy trucks. In view of the discrepancies found in the estimates used in determining the costs and benefits of the program, in May the Council filed its own cost-benefit analysis before EPA.

The proposed regulation would reduce the allowable noise level of trucks from the present 86 dB(A) level to 75 dB(A) in 1983. This would be done progressively with an 83 dB(A) level in 1977 and an 80 dB(A) level in 1981.

Since, in reality, EPA was proposing three different standards, the Council urged that they be analyzed individually. It was found that the 83 dB(A) standard in 1977 had a discounted benefit-cost ratio of 5.11. It was also found that the benefit-cost ratios for the 80 dB(A) and 75 dB(A) standards were 2.073 and 1.245, respectively. However, these last figures are misleading, for when moving from the 83 dB(A) to the 80 dB(A) and then further to the 75 dB(A) standard, the additional benefits are found to be negative while the additional costs are positive. Since the anticipated marginal benefits are less than the anticipated marginal costs, the Council concluded that the 75 dB(A) level was not economically justified and the 80 dB(A) level was highly suspect. A second filing, made in July further indicated that the 80 dB(A) could not be substantiated on the basis of measured benefits and costs. This matter is still pending before the EPA.

Aircraft Noise. In a May letter to EPA, the Council reaffirmed its opposition to EPA's proposal to the Federal Aviation Agency (FAA) for aircraft noise retrofit regulations. No evidence has been produced which could lead the Council to change its earlier finding that the costs of the retrofit program appear to exceed the tangible economic benefits by a substantial margin. In addition, an acceptable inflation impact analysis for this regulation has not been provided by either EPA or FAA.

Automotive Safety

The Council has taken a major interest in regulatory proposals emanating from the National Highway Traffic Safety Administration (NHTSA). During this quarter, the Council staff submitted comments on two of these proposals—occupant crash protection and tire grading standards.

Occupant Crash Protection. At a NHTSA public hearing on May 23, Council staff testified against a NHTSA proposal to mandate passive restraint systems (such as air bags or passive seat belts) in 1977 model cars. The cost-effectiveness of passive restraint devices, especially for smaller cars, has not been clearly established. Implementation of the NHTSA proposal for all new cars would amount to a massive and inefficient field test of a costly new restraint system (cost estimates range to $3 billion per year). Staff argued that a carefully monitored field test, involving many fewer cars (and thus much less expense), should be undertaken before NHTSA adopts this major new requirement. If the government committed itself within the next few months to fund such a program, a fleet of 100,000 air bag equipped small cars (Pinto or Vega size) probably could be on the road in 1978. This test fleet would be in addition to the 10,000 larger cars now equipped with air bags and already on the road, plus whatever number are purchased between now and June 1976 (when GM plans to drop the air bag as an option.) The experiment should be accompanied by a delay in the decision on the new standard (MVSS 208) until the field test results are analyzed. There also should be some change in NHTSA's "passivity" emphasis to encourage manufacturers who claim to be able to develop effective, low-cost "almost passive" belts.

The government should not require the installation of air bags or passive belts on the basis of little more than a faith in the technology and the results of a very small number of crashes. However, if a decision is made to go ahead with the air bag as the primary passive restraint technology, Congress should be asked to pass legislation confirming this decision. The 30-day no-concurrence joint resolution now required is inadequate. Considering our previous experience with the ignition-interlock, the last thing we want is for the auto makers and the public to bear the expenses of tooling up to produce air bags and then have Congress decide that the public does not want the system. Going this route would also have the advantage of posing squarely the choice between air bags and the alternative that Congress has so far ignored—mandatory seat belt laws. This matter is still pending before NHTSA.

Tire Grading Standards. In June the Council sent comments to NHTSA on the Uniform Tire Grading Quality Standards. Although satisfied with the comprehensiveness of NHTSA's inflation impact analysis, the Council questioned some of the cost estimates. A review of industry submissions to the Council indicated that NHTSA may not have completely evaluated all costs and that considerable discrepancies exist between NHTSA and the tire industry regarding the amount of testing that might be required. The Council had further reservations regarding the benefits that might accrue to the consumer from the standards. It was our position that many of the benefits claimed by NHTSA already may have been achieved by the industry through advertising. Although NHTSA has promulgated this standard, the tire industry is seeking redress through the courts; the U.S. Court of Appeals decided in August that it would review this matter.

Energy

On June 16, the Council submitted comments to the Federal Energy Administration (FEA) regarding FEA's inflation impact analysis of the proposed deregulation of domestic oil production classified as "old crude." The Council did not take issue with the basic program but identified areas to which FEA could devote more conscientious analysis such as the effects of deregulation on the productivity of wage earners, businesses, and government and the labor force impacts of any effects on both short-run and long-run employment. In addition, the Council directed comments to the lack of any analysis of possible effects on oil intensive industries such as utilities, transportation and plastics.

On June 18, the Council commented on FEA's inflationary impact analysis of the coal conversion program under the Energy Supply and Environmental Coordination Act of 1974. The Council recommended that FEA include in this analysis the agency's estimate of the cost impact on consumers, and a broader range of possible values for important variables in the analysis. The Council was also concerned about the conclusions regarding coal prices, the lack of a meaningful consideration of possible alternatives (to coal conversion) and a seemingly ambivalent position regarding the effects of conversion on coal prices. The Council felt that the FEA analysis could have been improved significantly if some of these factors had been given more detailed attention.

Housing Programs

In June the Council commented on a proposal from the Department of Housing and Urban Development (HUD) to require professional certification of housing managers in the public housing program. The Council pointed out problems that often arise with occupational licensing schemes—the supply of eligible job seekers is restricted, which tends to increase salary costs, and unfortunately quality improvement does not always follow. The Council urged HUD to consider more carefully the potential adverse economic consequences of its proposal and to review the practicability of achieving quality management through alternative personnel policies.

In July the Council staff submitted comments to HUD concerning its proposed Mobile Home Construction and Safety Standards. The cost of the safety and general quality portion of the standard is estimated at $877 million over five years, but there is no documentation of benefits. The Council concluded that the economic analysis provided by HUD does not contain sufficient information to make a judgment on the proposed standard except with respect to its energy conservation elements (which do appear to be economically justifiable). The Council urged that the effective date of this standard be postponed to permit HUD to complete the needed research and to make such changes in the standard as may be indicated by this research.

Product Labeling

In May the Council filed comments in support of a Food and Drug Administration (FDA) proposal to exempt individually wrapped candies weighing two ounces or less from an existing requirement that each wrapper show the net quantity of each content, so long as those net quantities are displayed elsewhere on the box or bag of candies or at the point of sale. The Council noted that savings in the cost of wrappers (that is, the cost of discarding unused wrappers as their content information becomes obsolete) could be passed on to consumers. However, the Council took issue with the potential magnitude of the savings claimed by the National Confectioners Association. The Council suggested that FDA carefully assess these potential savings in order to determine whether they outweigh the value of the reduction of available consumer information.

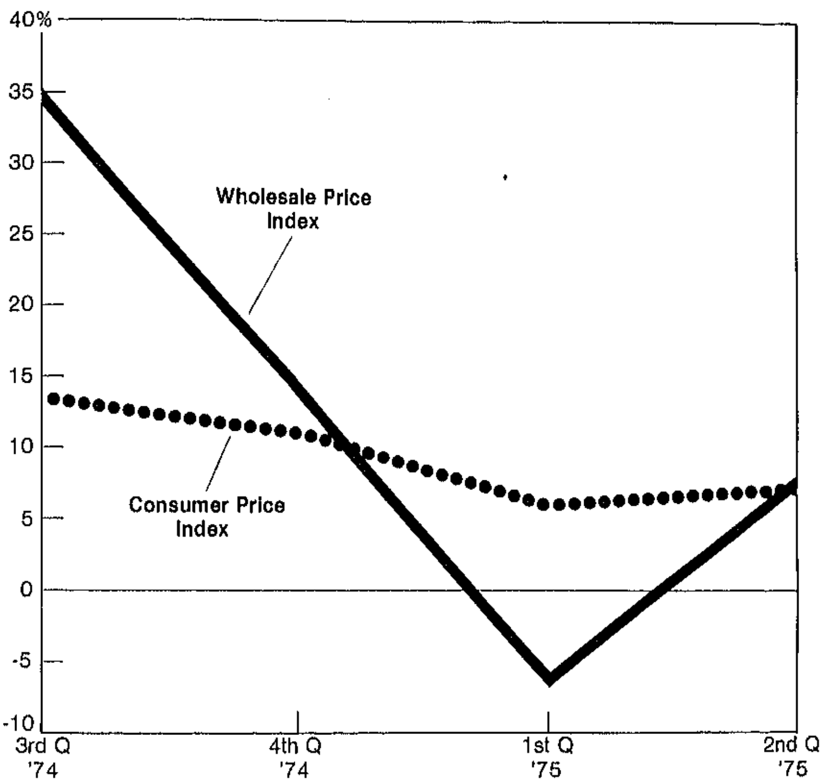
Another FDA labeling requirement question which attracted the Council's attention concerned dairy product containers. In July the Council urged the FDA to adopt a proposal which would exempt certain frozen desserts and fluid milk products from label information placement requirements. This recommendation was based on evidence which showed that considerable cost savings would be realized by dairy products manufacturers without inconveniencing consumers who sought nutrition information.

CHAPTER IV

Wages and Prices During Second Quarter 1975

Inflation as measured by consumer and wholesale prices flared up somewhat in the second quarter after abating noticeably in the first quarter. The Consumer Price Index increased at a higher annual rate (7.1 percent for the 3 months ending in June vs. 6.0 percent for the 3 months ending in March), and the Wholesale Price Index turned around completely—from falling at a 6.3 percent annual rate (seasonally adjusted) to rising at an annual rate of 7.2 percent. The broadest measure of price movement in the economy—the GNP Implicit Price Deflator—continued to slow its annual rate of increase—from 8.4 percent in the March quarter to 5.1 percent in the quarter ending June 30: (These figures are average changes over the quarter while CPI and WPI figures are changes from end of quarter to end of quarter). Money

Quarterly Changes at Annual Rates in Selected Measures of Aggregate Price Behavior, 1974 - '75



Source: Department of Labor, Bureau of Labor Statistics

Changes in Selected Aggregate Measures of Price Behavior From 1971–2nd Quarter 1975

Price Measure	% Change During Year*				Seasonally Adjusted Quarterly Change at Annual Rate**			
	1971	1972	1973	1974	3rd-74	4th-74	1st-75	2nd-75
GNP Implicit Price Deflator	3.5	3.7	7.4	12.0	11.9	14.4	8.4	5.1
Constant (1967) Weights	4.4	4.3	7.9	12.1	12.7	12.5	7.5	6.0
Consumer Price Index	3.4	3.4	8.8	12.2	13.4	11.0	6.0	7.1
Food	4.3	4.7	20.1	12.2	11.7	14.3	—0.2	10.0
Non-food Commodities	2.3	2.5	5.0	13.2	15.6	8.8	7.4	5.9
Services***	4.1	3.6	6.2	11.3	13.9	10.9	8.0	6.3
Wholesale Price Index	4.0	6.5	15.4	20.9	34.9	14.2	—6.3	7.2
Farm Products and Processed Foods and Feeds	6.0	14.4	26.7	11.0	60.5	18.8	—27.6	17.0
Industrial Commodities	3.3	3.6	10.7	25.6	28.4	11.1	4.2	2.6

*Percent change for GNP Implicit Price Deflator calculated from fourth quarter to fourth quarter; price change for both CPI and WPI calculated from December to December.

**Percent changes for CPI and WPI are for three months ending in September, December, March, and June; percent changes for GNP Deflators are based on quarterly averages.

***Quarterly changes for 1974 and 1975 not seasonally adjusted.

Source: Bureau of Labor Statistics.

wages slackened their rate of increase from the previous quarter, but real hourly wages continued to rise for the second consecutive quarter after falling throughout 1973 and 1974.

Wholesale Prices

While wholesale prices rose at an annual rate of 7.2 percent after declining in the first quarter, the increase was only half as large as in the fourth quarter of last year. Farm product prices exhibited their usual volatility, rising at a seasonally adjusted annual rate of 36.5 percent after falling at a 33.4 percent rate in the first quarter. Prices for processed foods and feeds also turned around, but not so dramatically—from a 24 percent annual rate of decline in the prior quarter to a 5.6 percent rate of increase. These sharp changes were due largely to higher prices for livestock and meats (as cutbacks in herds due to higher feed grain prices resulted in smaller marketings). Industrial commodity prices continued to moderate their rate of increase for the fourth consecutive quarter, rising at an annual rate of 2.6 percent compared to 4.2 percent in the first quarter; much of the increase was due to higher prices for fuels, with many other prices increasing only slightly, if at all.

Changes in the Wholesale Price Index by Stage of Processing, 1971–1975

Stage of Processing	% Change from Dec. to Dec				Quarterly Change at Annual Rate, Seasonally Adjusted	
	1971	1972	1973	1974	1975 1st Quarter	1975 2nd Quarter
Crude materials*................	2.6	10.9	31.4	23.0	—10.3	14.9
Intermediate materials**..	4.3	4.1	11.9	28.5	3.7	0.7
Finished goods....................	3.1	3.9	11.8	18.3	0.3	10.5
Producer	2.3	2.1	5.3	22.6	11.8	5.1
Consumer	3.3	4.5	13.6	17.1	—3.0	12.5
Food	5.9	8.0	22.5	13.0	—12.9	23.7
Non-food	1.8	2.2	7.4	20.5	3.8	4.1

*Excludes crude foodstuffs and feedstuffs, plant and animal fibers, oilseeds, and leaf tobacco.
**Excludes intermediate materials for food manufacturing and manufactured animal feeds.
Source: Bureau of Labor Statistics.

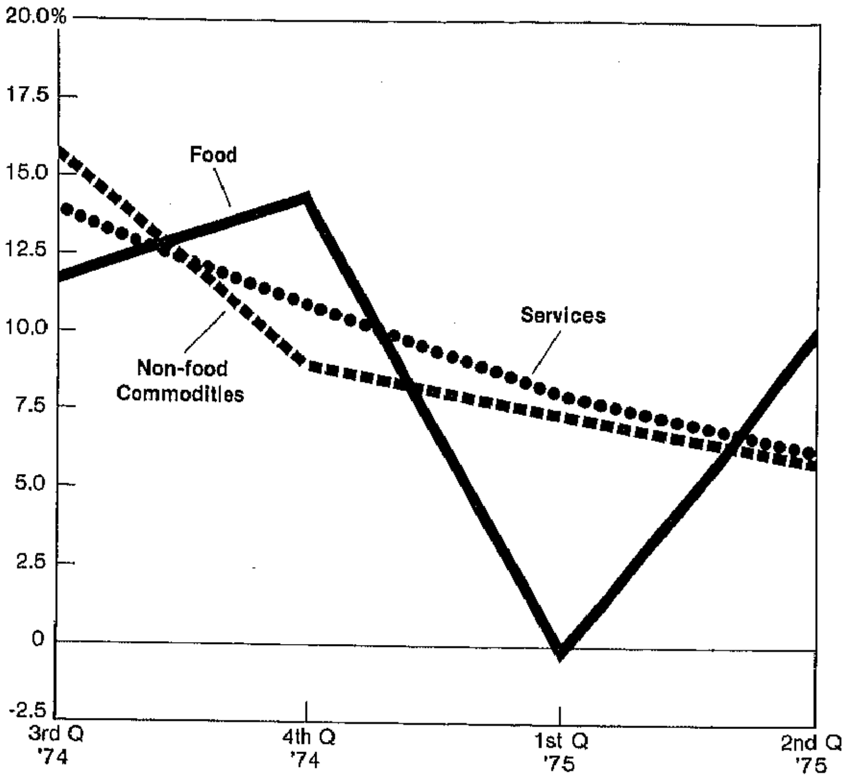
Wholesale prices exhibited contrary tendencies on a stage of processing basis. Prices for crude materials (excluding foods, feeds, and fibers) reversed themselves, rising at an annual rate of 14.9 percent (seasonally adjusted) after falling at a 10.3 percent rate in the previous quarter; higher prices for crude petroleum and natural gas were the largest contributors to the increase. The prices of intermediate materials (excluding foods and feeds) rose at an annual rate of only 0.7 percent, considerably less than the first quarter's 3.7 percent rate, while prices for finished goods increased at an annual rate of 10.5 percent—sharply higher than the first quarter rate of 0.3 percent. Most of the increase in the finished goods index resulted from a turnaround in consumer food prices; these prices—which had declined at a 12.9 percent annual rate in the first quarter—rose at the rate of 23.7 percent in the

second quarter. Consumer non-food prices rose at a 4.1 percent annual rate, little changed from the prior quarter's 3.8 percent, and producer goods prices continued to moderate their rate of increase—from 11.8 percent in the first quarter to 5.1 percent in the second.

Consumer Prices

The Consumer Price Index, which had been moderating its rate of increase since the third quarter of last year, rost at an annual rate of 7.1 percent in the second quarter—an upward turn from the first quarter rate of 6.0 percent. The faster rate of increase was due almost entirely to higher prices for food and energy items.

Quarterly Changes at Annual Rates in Selected Components of the Consumer Price Index, 1974 - '75



Source: Department of Labor, Bureau of Labor Statistics

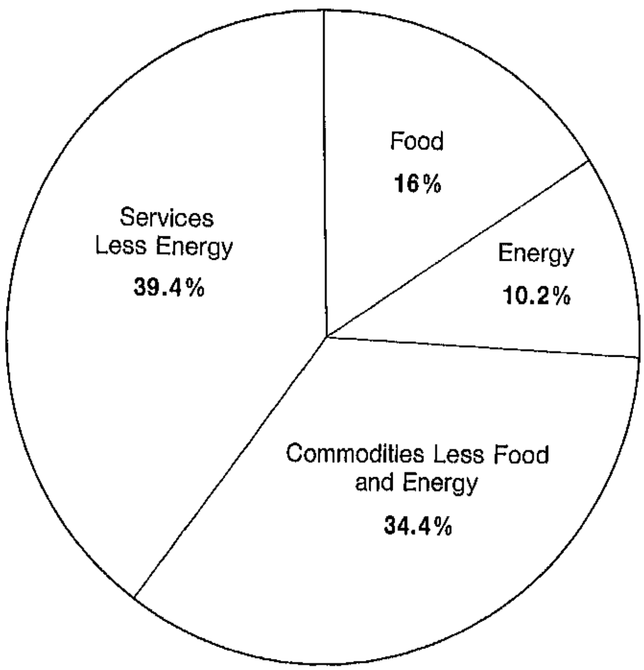
The food index, after declining slightly in the first quarter, advanced at an annual rate of 10.0 percent, while a special index of energy items (comprised of commodity and service items) accelerated its annual rate of increase from 5.9 percent to 18.2 percent. The turnaround in the food index was due to higher prices for meat, poultry, and fresh vegetables, with prices for most other items actually declining (including sugar-related items which had risen rapidly earlier). Energy prices were substantially higher for all items—gasoline, fuel oil and coal, and natural gas and electricity.

Aside from energy items, price increases for both non-food commodities and services continued to moderate. The index for non-food commodities rose at an annual rate of 5.9 percent, compared to 7.4 percent in the first quarter and 8.8 percent in the fourth quarter of last year. If energy items are excluded, the annual rate of increase is only 4.2 percent—a drop of more than 50 percent from the first quarter rate.

The annual rate of increase in the services index was 6.3 percent, down from rates of 8.0 percent and 10.9 percent in the previous two quarters. The lower rate of increase in the second quarter is due in substantial part to a moderating of the rising charges for medical care service. If energy items are excluded, the annual rate of increase for the quarter was 5.7 percent.

Components of Increase in the Consumer Price Index

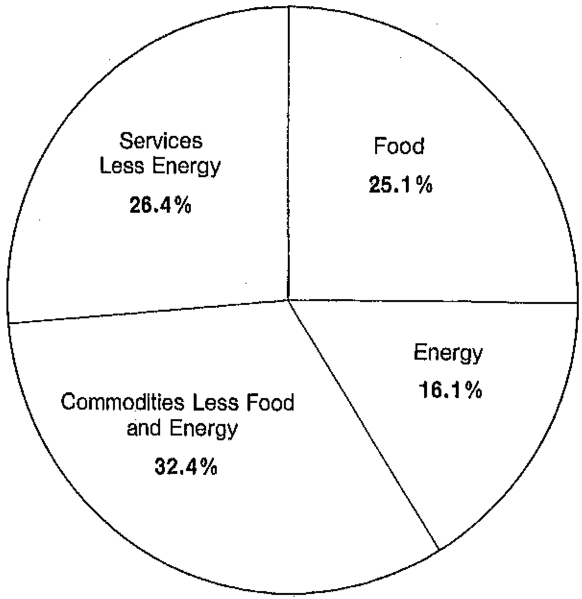
1st Quarter 1975



Source: Department of Labor, Bureau of Labor Statistics

Components of Increase in the Consumer Price Index

2nd Quarter 1975



Source: Department of Labor, Bureau of Labor Statistics

Perspective on rising consumer prices can be gained by tracing the relative importance of the CPI's major components back to the last quarter of 1973:

Contribution to Change in All Items (%)

	4Q-'73	1Q-'74	2Q-'74	3Q-'74	4Q-'74	1Q-'75	2Q-'75
All Items	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Food	23.0	38.6	7.2	22.1	28.1	16.0	25.1
Energy	27.8	27.8	12.4	3.5	0.4	10.2	16.1
Commodities (Less food & energy)	15.7	13.9	47.5	40.4	37.5	34.4	32.4
Services (Less energy)	33.4	19.7	32.9	34.0	34.0	39.4	26.4

Source: BLS

The Table leads to several conclusions: (1) rising commodity prices are less significant a factor in inflation than they were a year ago, but much more significant than at the start of the period; (2) services continue to account for roughly a third of the rise in consumer prices; (3) food prices have fluctuated the most, but on balance have accounted for about a quarter of the rise in consumer prices; (4) energy prices are becoming a major factor again as they were at the beginning of the period, after almost a year of declining importance. The overall conclusion seems to be that it is not safe to assume that any segment of the consumer economy no longer poses a threat to price stability in the year ahead.

GNP Price Deflator

The GNP Deflator rose at a slower rate than in the prior quarter—5.1 percent vs. 8.4 percent, and 6.0 percent vs. 7.5 percent using constant (1967) weights (these figures are quarterly averages rather than quarter-to-quarter changes). This is a broader measure of economic activity than the Consumer Price Index and indicates that inflation in the second quarter continued to moderate in the economy as a whole. The table below indicates that inflation has been more severe in the consumer sector for most of the past nine years:

Year	% Increase GNP Deflator	% Increase CPI
1966	2.8	3.4
1967	3.2	3.0
1968	4.0	4.4
1969	4.8	6.1
1970	5.5	5.5
1971	4.5	3.4
1972	3.4	3.4
1973	5.6	8.8
1974	10.3	12.2

Wages and Compensation

Average hourly compensation in the private economy increased at a 7.3 percent annual rate, down from the 10.8 percent rate of the previous quarter. Because prices have slowed their rise from the pace of 1974, however, real hourly compensation continued to advance for the second consecutive quarter—although the annual rate of 1.7 percent was below the first quarter rate of 2.7 percent. The average hourly earnings index (which is adjusted for overtime in manufacturing and for interindustry employment shifts) also slowed its annual rate of increase slightly—from 8.2 percent in the first quarter to 7.1 percent—but the real hourly earnings index rose at a faster pace, at an annual rate of 1.1 percent compared to 0.2 percent for the first quarter. Average weekly earnings picked up at an annual rate of 4.8 percent, a substantial improvement over the 0.5 percent first quarter rate as the decline in weekly hours slowed. Real average weekly earnings continued to fall, but at a much lower annual rate than in the prior quarter—1.1

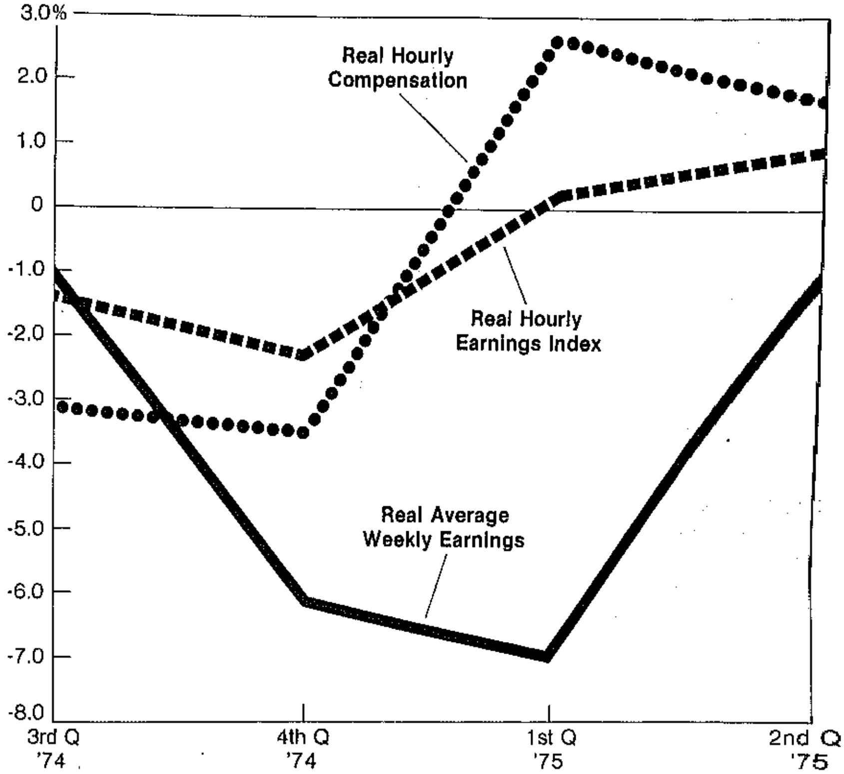
Changes in Wage Measures in the Private Nonfarm Economy, 1971–1975

Aggregate Measures	% Change During Year*				Quarterly Change at Annual Rate, Seasonally Adjusted		
	1971	1972	1973	1974	4th-74	1st-75	2nd-75
Hourly compensation	6.3	6.5	8.0	8.8	8.6	10.8	7.8
Real hourly compensation	2.7	2.9	—0.4	—2.0	—3.5	2.7	.7
Average weekly earnings	7.2	6.5	6.9	6.2	5.5	0.5	4.8
Real average weekly earnings	3.8	3.0	—1.8	—4.3	—6.1	—7.0	—1.1
Hourly earnings index	7.1	6.4	6.5	8.0	9.8	8.2	7.0
Real hourly earnings index	3.6	2.9	—2.1	—2.6	—2.3	0.2	0.9

*Percentage change for hourly compensation is calculated from fourth quarter to fourth quarter; percentage change for average weekly earnings and hourly earnings index is calculated from December to December.

Source: Bureau of Labor Statistics.

Quarterly Changes at Annual Rates in Real Wage Measures in the Private Nonfarm Economy, 1974 - '75



Source: Department of Labor, Bureau of Labor Statistics

percent vs. 7.0 percent. Negotiated wage increases were smaller in the second quarter, with the average first year increase of 9.8 percent in major collective bargaining settlements (those covering 1000 workers or more) down from the prior quarter's 12.5 percent. This decline was due largely to the fact that the first quarter figure reflected substantial first-year settlements for large numbers of workers in the petroleum refining and railroad industries. The average negotiated increase over the life of the contract rose in the second quarter to 8.3 percent from the prior quarter's figure of 7.7 percent. The size of average settlements was the same as the previous quarter for contracts with escalator clauses and slightly smaller for those contracts without escalation (the higher figure for all settlements resulted from a change in the relative proportions of workers under the two types of contracts). These figures do not reflect the postal settlement reached in July.

Major Collective Bargaining Settlements, 1971—Second Quarter 1975

Category	1971	1972	1973	1974	1975 1st Quarter	1975 2nd Quarter
All settlements						
First year settlement (%)	11.6	7.3	5.8	9.8	12.5	9.8
Average over contract (%)*	8.1	6.4	5.1	7.3	7.7	8.3
Number of workers (millions)	4.0	2.4	5.3	5.1	0.6	0.6
Settlements with escalator clauses						
First year settlement (%)	12.9	7.9	5.7	9.5	13.3	11.2
Average over contract (%)*	7.1	5.7	4.9	6.1	6.9	6.9
Number of workers (millions)	2.0	0.4	2.0	3.0	0.4	0.1
Settlements w/o escalator clauses						
First year settlement (%)	10.3	7.2	5.8	10.2	11.1	9.5
Average over contract (%)*	9.2	6.5	5.3	9.1	8.8	8.6
Number of workers (millions)	2.0	2.0	3.3	2.1	0.2	0.5

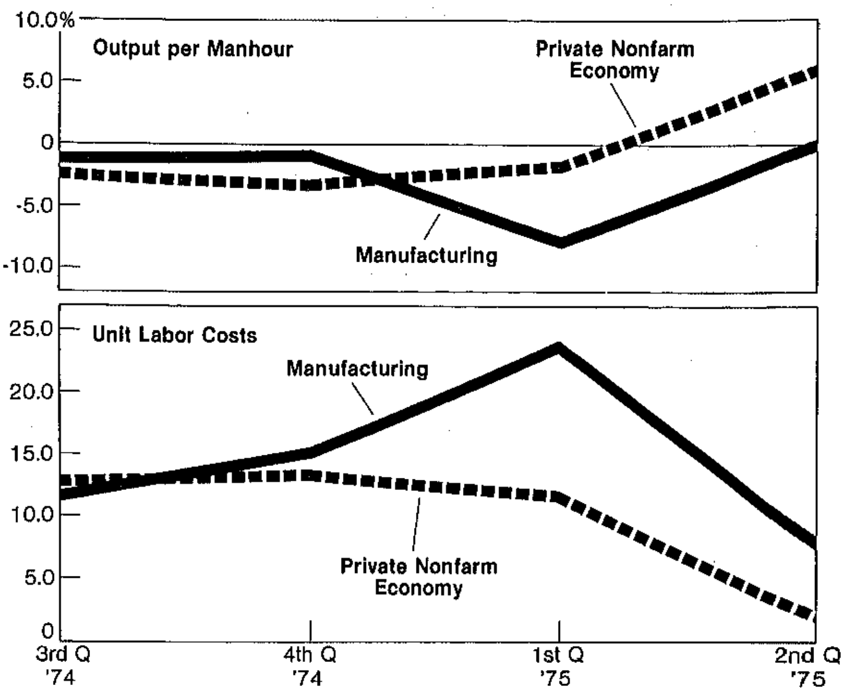
*Excludes increases under cost-of-living clauses.
Source: Bureau of Labor Statistics.

Settlements in the important contract construction industry were the largest factor in the second quarter bargaining results. These settlements varied widely among trades and geographical regions—being lower for the more basic trades (such as carpenters, masons, and laborers) and in the Northeast (5-6 percent) and higher for the specialty trades (plumbers and electricians) and on the West Coast (12-15 percent).

Productivity and Unit Labor Costs

Labor productivity for the private economy rose at an annual rate of 4.3 percent in the second quarter—the first gain in a year and the first substantial gain since 1973. Output increased 1.5 percent and hours declined by 2.8 percent to produce the overall increase in productivity. The gain in productivity was even greater for the private non-farm sector, where it increased at an annual rate of 5.8 percent—the first advance in two years. Manufacturing productivity was unchanged from the first quarter—a substantial improvement on the 7.9 percent decline over the prior quarter that reflects improving economic conditions; as output ends its precipitous drop and begins to grow again, productivity in manufacturing can be expected to rise.

Quarterly Changes at Annual Rates in Productivity and Unit Labor Costs, 1974 - '75



Source: Department of Labor, Bureau of Labor Statistics

The improvement in productivity performance together with a slowing in the growth of hourly compensation combined to produce a big improvement in the behavior of unit labor costs over the prior quarter. These costs had increased at an annual rate of 10.7 percent for the private economy and 11.4 percent for the private non-farm sector in the first quarter; the corresponding rates of increase in the second quarter were 3.3 percent and 1.9 percent respectively. Unit labor costs in manufacturing rose at an 8.9 percent annual rate, but even this was a great improvement from the 23.6 percent rate of the first quarter.

Because of the deep recession productivity in the private economy

Changes in Productivity and Unit Labor Costs, 1971–1975

Measure	Percent Change During Year				Seasonally Adjusted Quarterly Change at Annual Rate		
	1971	1972	1973	1974	4th-1974	1st-1975	2nd-1975
Output per manhour							
Private economy	3.9	3.6	2.5	—2.6	—5.1	0.0	4.3
Private nonfarm	3.7	3.7	2.3	—2.8	—3.4	—1.8	5.8
Manufacturing	6.7	5.6	5.5	0.8	—1.0	—7.9	0.0
Unit labor costs							
Private economy	2.6	2.5	5.0	11.8	14.4	10.7	3.3
Private nonfarm	2.8	2.4	4.9	12.0	13.3	11.4	1.9
Manufacturing	0.1	—0.1	1.5	8.6	15.0	23.6	8.3

Source: Bureau of Labor Statistics.

declined in 1974 for the first time since BLS began measuring it in 1947, and its recovery will have much to do with long-term economic prospects—since the ability to increase real productivity determines an economy's capacity to translate increased money wages into either higher real wages or higher costs and prices over the long run.

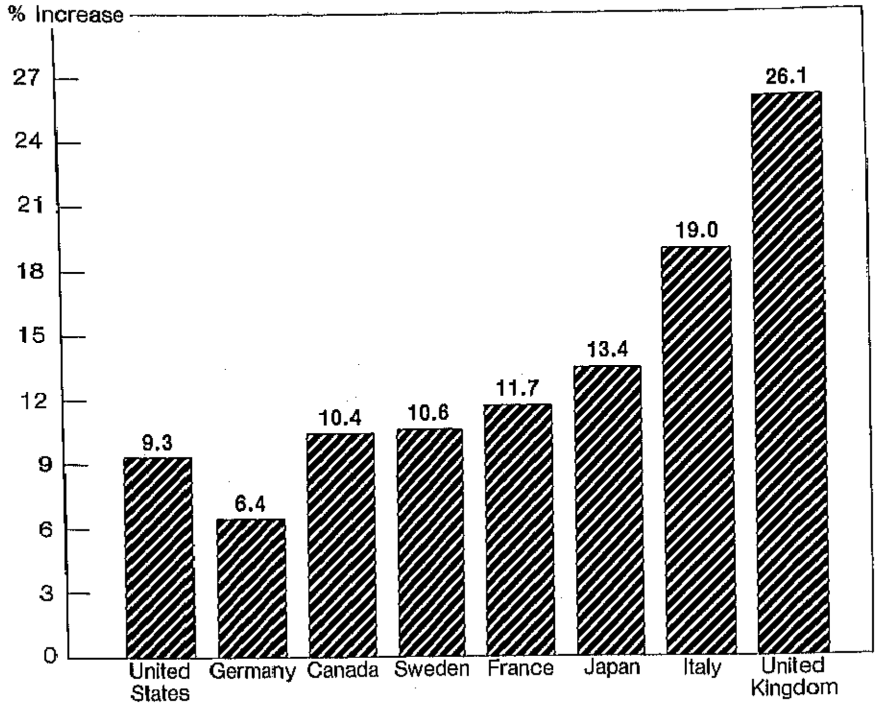
Outlook for the Second Half

Our last quarterly report suggested that the increase in the CPI for calendar year 1975 would be toward the lower end of a 7-10 percent range; while that still seems likely, events of the past three months have not made it any more certain.

The turnaround in the WPI and the slightly faster rate of increase in the CPI in the second quarter were attributable to higher prices for food and energy, as prices of other commodities and of services increased less than in the first quarter. The same uncertainties continue concerning food and energy prices. Recent favorable crop forecasts for major grains were made before the effects of drought in some parts of the Midwest could be assessed, and of course future Russian grain purchases remain hanging over the market. The movement of fuel prices for the rest of the year will depend on what happens to the price of "old" domestically produced oil if controls lapse, and to the price of imported oil when the OPEC meets in October. Gains in productivity are favorable indicators that unit labor costs may be putting less upward pressure on prices, but the apparent tendency of large industries such as aluminum and autos to attempt to pass along cost increases despite soft demand could jeopardize the prospects for both price stability and economic recovery.

The United States is now one of four industrialized countries that has managed to get its inflation out of the double digit range according to Organization for Economic Cooperation and Development figures—(the U.S. figure for the twelve months ending in June was 9.3 percent, and for the first half of this year the CPI rose at an annual rate of 6.6 percent). Unless the worst alternative scenarios occur for food and energy prices the increase for all of 1975 should stay safely below 10 percent.

Consumer Price Increases for Eight Countries from June 1974 to June 1975



Source: Organization for Economic Cooperation and Development

The Council on Wage and Price Stability Act,
Public Law 93-387 (August 24, 1974) as amended
by Public Law 94-78 (August 9, 1975)

AN ACT

To authorize the establishment of a Council on Wage and Price Stability

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Council on Wage and Price Stability Act".

Sec. 2 (a) The President is authorized to establish, within the Executive Office of the President, a Council on Wage and Price Stability (hereinafter referred to as the "Council").

(b) The Council shall consist of eight members appointed by the President and four adviser-members also appointed by the President.

(c) There shall be a Director of the Council who shall be appointed by the President by and with the advice and consent of the Senate. The Director shall be compensated at the rate prescribed for level IV of the Executive

Schedule by section 5315 of title 5, United States Code. The Director of the Council shall perform such functions as the President or the Chairman of the Council may prescribe. The Deputy Director shall perform such functions as the Chairman or the Director of the Council may prescribe.

(d) The Director of the Council may employ and fix the compensation of such officers and employees, including attorneys, as are necessary to perform the functions of the Council at rates not to exceed the highest rate for grade 15 of the General Schedule under section 5332 of title 5, United States Code. Except that the Director, with the approval of the Chairman may, without regard to the provisions of title 5, United States Code, relating to appointments in the competitive service, appoint and fix the compensation of not to exceed five positions at the rates provided for grades 16, 17, and 18 of such General Schedule, to carry out the functions of the Council.

(e) The Director of the Council may employ experts, expert witnesses, and consultants in accordance with the provisions of section 3109 of title 5, United

States Code, and compensate them at rates not in excess of the maximum daily rate prescribed for grade 18 of the General Schedule under section 5332 of title 5, United States Code.

(f) The Director of the Council may, with their consent, utilize the services, personnel, equipment, and facilities of Federal, State, regional, and local public agencies and instrumentalities, with or without reimbursement therefor, and may transfer funds made available pursuant to this Act to Federal, State, regional, and local public agencies and instrumentalities as reimbursement for utilization of such services, personnel, equipment, and facilities.

(g) The Council shall have the authority, for any purpose related to this Act, to --

(1) require periodic reports for the submission of information maintained in the ordinary course of business; and

(2) issue subpenas signed by the Chairman or the Director for the attendance and testimony of witnesses and the production of relevant books, papers, and other documents, only to

entities whose annual gross revenues are in excess of $5,000,000;

relating to wages, costs, productivity, prices, sales, profits, imports, and exports by product line or by such other categories as the Council may prescribe. The Council shall have the authority to administer oaths to witnesses. Witnesses summoned under the provisions of this section shall be paid the same fees and mileage as are paid to witnesses in the courts of the United States. In case of refusal to obey a subpena served upon any person under the provisions of this section, the Council may request the Attorney General to seek the aid of the United States district court for any district in which such person is found, to compel that person, after notice, to appear and give testimony, or to appear and produce documents before the Council.

Sec. 3 (a) The Council shall --

(1) review and analyze industrial capacity, demand, supply, and the effect of economic concentration and anticompetitive practices, and supply in various sectors of the economy, working with the industrial groups concerned and appropriate governmental agencies to encourage price restraint;

(2) work with labor and management in the various sectors of the economy having special economic problems, as well as with appropriate government agencies, to improve the structure of collective bargaining and the performance of those sectors in restraining prices;

(3) improve wage and price data bases for the various sectors of the economy to improve collective bargaining and encourage price restraint;

(4) conduct public hearings necessary to provide for public scrutiny of inflationary problems in various sectors of the economy;

(5) focus attention on the need to increase productivity in both the public and private sectors of the economy;

(6) monitor the economy as a whole by acquiring as appropriate, reports on wages, costs, productivity, prices, sales, profits, imports, and exports;

(7) review and appraise the various programs, policies, and activities of the departments and agencies of the United States for

the purpose of determining the extent to which those programs and activities are contributing to inflation; and

(8) intervene and otherwise participate on its own behalf in rulemaking, ratemaking, licensing and other proceedings before any of the departments and agencies of the United States, in order to present its views as to the inflationary impact that might result from the possible outcomes of such proceedings.

(b) Nothing in this Act, (1) authorizes the continuation, imposition, or reimposition of any mandatory economic controls with respect to prices, rents, wages, salaries, corporate dividends, or any similar transfers, or (2) affects the authority conferred by the Emergency Petroleum Allocation Act of 1973.

Sec. 4 (a) Any department or agency of the United States which collects, generates, or otherwise prepares or maintains data or information pertaining to the economy or any sector of the economy shall, upon the request of the Chairman of the Council, make that data or information available to the Council.

(b) Disclosure of information obtained by the Council from sources other than Federal, State, or local government agencies and departments shall be in accordance with the provisions of section 552 of title 5, United States Code.

(c) Disclosure by the Council of information obtained from a Federal, State, or local agency or department must be in accord with section 552 of title 5, United States Code, and all the applicable rules of practice and procedure of the agency or department from which the information was obtained.

(d) Disclosure by a member or any employee of the Council of the confidential information as defined in section 1905 of title 18, United States Code, shall be a violation of the criminal code as stated therein.

(e) Consistent with the provisions of section 7213 of the Internal Revenue Code of 1954, nothing in this Act shall be construed as providing for or authorizing any Federal agency to divulge or to make known to the Council the amount or source of income, profits, losses, expenditures, or any particular thereof, set forth or disclosed solely in any income return, or to permit any income tax return filed pursuant to the provisions

of the Internal Revenue Code of 1954, thereof, to be seen or examined by the Council.

(f)(1) Product line or other category information relating to an individual firm or person and obtained under section 2(g) shall be considered as confidential financial information under section 552 (b)(4) of title 5 of the United States Code and shall not be disclosed by the Council.

(2) Periodic reports obtained by the Council under section 2(g) and copies thereof which are retained by the reporting firm or person shall be immune from legal process.

Sec. 5. The Council shall report to the President, and through him to the Congress, from time to time, ... activities, findings, and recommendations

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y authorized to be appropriated not to exceed $1,700,000 for each fiscal year ending prior to October 1, 1977 to carry out the purposes of this Act.

Sec. 7. The authority granted by this Act terminates on September 30, 1977.

Membership of the Council on Wage and Price Stability

Chairman	William E. Simon Secretary of the Treasury
Deputy Chairman	L. William Seidman Assistant to the President for Economic Affairs
Director	Michael H. Moskow
Members	
Secretary of Agriculture	Earl L. Butz
Secretary of Commerce	Rogers C.B. Morton
Secretary of Labor	John T. Dunlop
Director of the Office of Management and Budget	James T. Lynn
Special Representative for Trade Negotiations	Frederick B. Dent
Special Assistant to the President for Consumer Affairs	Virginia H. Knauer
Adviser Members*	
Assistant Secretary (Planning and Evaluation), Department of Health, Education and Welfare	William A. Morrill
Assistant Attorney General Antitrust Division	Thomas Kauper
Deputy Secretary of Transportation	John W. Barnum

*No adviser member successor to Michael Moskow has been named.

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COUNCIL ON WAGE AND PRICE STABILITY